

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

SB 32 – HB 48

April 15, 2015

SUMMARY OF ORIGINAL BILL: Requires annual adjustments, beginning on January 1, 2016, to the maximum allowable income exemption levels, for single and joint filers of the Hall Income Tax (HIT), including taxpayers who are 65 years of age or older, by the percentage change of the consumer price index as published by the United States Department of Labor, Bureau of Labor Statistics. Requires such exemptions to be rounded to the nearest \$100.

FISCAL IMPACT OF ORIGINAL BILL:

Decrease State Revenue – Net Impact – \$799,800/FY16-17
\$999,800/FY17-18
\$1,566,400/FY18-19
\$2,149,600/FY19-20
\$2,716,100/FY20-21
Exceeds \$2,716,100/FY21-22 and Subsequent Years

Decrease Local Revenue – Net Impact – \$434,600/FY16-17
\$543,200/FY17-18
\$851,100/FY18-19
\$1,168,000/FY19-20
\$1,475,800/FY20-21
Exceeds \$1,475,800/FY21-22 and Subsequent Years

Other Fiscal Impact – Secondary economic impacts may occur as a result of this bill. Such impacts may be realized due to changes in population or as a result of other behavioral changes prompted by the passage of this bill. Due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty

SUMMARY OF AMENDMENTS (006465, 006580): Amendment 006465 deletes all language after the enacting clause. Increases, for tax years 2016 and subsequent years, the HIT maximum allowable income exemption level from \$33,000 to \$37,000, for single filer taxpayers 65 years of age or older, and from \$59,000 to \$68,000, for joint filer taxpayers 65 years of age or older. Amendment 006580 establishes that the proposed changes will apply to tax years beginning on or after January 1, 2015, instead of January 1, 2016.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENTS:

SB 32 – HB 48

Decrease State Revenue – Net Impact – \$983,700/FY15-16 and Subsequent Years

Decrease Local Revenue – Net Impact – \$534,500/FY15-16 and Subsequent Years

Other Fiscal Impact – Secondary economic impacts may occur as a result of this bill. Such impacts may be realized due to changes in population or as a result of other behavioral changes prompted by the passage of this bill. Due to multiple unknown factors, fiscal impacts directly attributable to such secondary impacts cannot be quantified with reasonable certainty.

Assumptions for the bill as amended:

- Pursuant to Tenn. Code Ann. § 67-2-102, HIT is a six percent tax on income derived from dividends on stock and from interest on bonds.
- Given the proposed changes to HIT income exemption levels shall be applied to tax years beginning with tax year 2015, and assuming that 100 percent of HIT owed for tax year 2015 is collected no later than June 30, 2016, the first year impact by this bill will be FY15-16. This collection pattern is assumed to remain constant into perpetuity.
- According to the Department of Revenue, the proposed increases to the maximum allowable exemptions for taxpayers 65 years of age or older will result in a recurring decrease in HIT revenue of \$1,593,948, beginning in FY15-16.
- The Fiscal Review Committee staff does not have access to the data and information upon which these calculations are based and cannot independently verify their accuracy.
- Based on the apportionments of HIT collections for the last three fiscal years (FY11-12, FY12-13, and FY13-14), it is estimated that the state retains 65.09 percent of HIT revenue and local governments are apportioned 34.91 percent.
- The recurring decrease in HIT revenue for the state, beginning in FY15-16, is estimated to be \$1,037,501 ($\$1,593,948 \times 65.09\%$); the recurring decrease in HIT revenue for the local government is estimated to be \$556,447 ($\$1,593,948 \times 34.91\%$).
- Fifty percent of tax savings will be spent in the economy on other sales-taxable goods and services.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The net recurring increase in state sales tax revenue, beginning in FY15-16, is estimated to be \$53,770 [$(\$1,593,948 \times 50.0\% \times 7.0\%) - (\$1,593,948 \times 50.0\% \times 7.0\% \times 3.617\%)$].
- The total recurring increase in local sales tax revenue, beginning in FY15-16, is estimated to be \$21,942 [$(\$1,593,948 \times 50.0\% \times 2.5\%) + (\$1,593,948 \times 50.0\% \times 7.0\% \times 3.617\%)$].
- The net recurring decrease in state revenue as a result of this bill is estimated to be \$983,731 ($\$1,037,501 - \$53,770$), beginning in FY15-16.
- The net recurring decrease in local revenue as a result of this bill is estimated to be \$534,505 ($\$556,447 - \$21,942$), beginning in FY15-16.

- There could be subsequent increases in state and local government revenue and expenditures due to the secondary economic impacts prompted by the passage of this bill. Increases in revenue may occur if the state's population increases as a result of reduced tax liability. Increases in expenditures may occur if the demand for governmental programs and infrastructure increases as a result of population increases. Due to multiple unknown factors, such as the extent and timing of population changes, the fiscal impacts directly attributable to such secondary impacts cannot be quantified with reasonable certainty.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Jeffrey L. Spalding, Executive Director

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